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AUTÊNTICO AROMA:  
WHEN A DIVIDED FAMILY MANAGES A BUSINESS

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## **ABSTRACT**

This case depicts a real family business facing disputes between the two current owners of the 2<sup>nd</sup> generation, as well as between their branches, derived from the equal share distribution and from the different roles in the business. Reaching the succession to the 3<sup>rd</sup> generation, the risk of a deadlock is increasingly higher, with the protagonist – a member of the same generation and a manager of the family firm – showcasing his concerns for its survival. Thus, this case portrays his necessity to pursue the family's legacy, raising discussion about the post-succession, with the four new shareholders inheriting equal shares.\*

*Keywords:* Family Business, Equal Share Distribution, Succession, Deadlock Avoidance

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My grandmother Ema, to whom I pay tribute in this project;

My father, mother and brother – who were always there for me with unconditional love and support – and Diogo, for all the care and for helping me overcome every obstacle.

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\* All names, dates, and exact values have been disguised, including the name of the family-owned business. However, when relevant for the comprehension of the case, their relative proportions were preserved.

## **AUTÊNTICO AROMA: WHEN A DIVIDED FAMILY MANAGES A BUSINESS**

The month of November of 2018 arrived with a cold breeze in the air, perfect for Ricardo to get his daily *espresso* at the end of a tough working day. After turning off the machines and equipment of the roasting factory in Lisbon, the young man went to the nearest café to drink a cup of the distinct *Autêntico Aroma*'s coffee, the family-owned business founded by his grandfather, Augusto Brandão.

Ricardo was more worried than ever and having his favourite beverage was the best moment to reflect, especially with his father, Júlio Brandão, retiring very soon and confining all management responsibilities to the other two managers, Ricardo and his uncle, Luís Brandão. The younger manager knew that due to the past divergences between Júlio's family branch and Luís's family branch, co-managing the firm would not be an easy task. Besides, with the succession of the firm looming from the 2nd to the 3rd generation, Ricardo had no doubt that the governance and management structures of the company would become even more chaotic.

Thinking back, his grandfather left *Autêntico Aroma* for his descendants to rule and to cherish, creating a coffee legacy that would be part of the Brandão family. However, the hostility inside the family had been putting this legacy at stake, with the family members not cooperating and continually stabbing each other in the back.

While watching other patrons pleasurably drinking the coffee of *Autêntico Aroma*, Ricardo knew that to ensure the continuity of the family business under the Brandão's name and to simultaneously maintain the quality and uniqueness of its coffee, the firm urgently needed to find new governance and management structures. He thought to himself: "My grandfather founded this company with hard work and sweat. We cannot be selfish to the extent of only thinking about our own interests, we must pursue the Brandão's legacy that Augusto aimed for. How can we ensure that his dream is not destroyed?"

## *Autêntico Aroma*

### **Raising a family while building a business**

**Augusto Brandão** - It was 1937 when Augusto Brandão, the oldest of eight siblings, arrived at the capital of Portugal, Lisbon. With his heart full of hopes and dreams, the 13-year-old boy moved to the house of his uncle, a prestigious photographer at that time, that gave free rein to his nephew's imagination regarding the wonders of the Portuguese capital. Born in the North of Portugal, Augusto grew up longing for his uncle's visit every year, namely for the *bolo rei*<sup>1</sup>, that the photographer designated as the "bread of Lisbon", luscious and sweet as the city itself – Augusto imagined when listening to his relative.

In Lisbon, the young boy started to work in a small grocery store during the day, while proceeding with his studies at night, gathering savings for many years. In 1944, with a well-stocked piggy bank, Augusto purchased a share of a boutique that sold exquisite coffees, acquiring vital skills and precious expertise that later culminated in the creation of his own brand, a strategy followed by several apprentices at the time.

Hence, in the chilly October of 1950, Augusto established a warehouse, the current location of the company, where the first equipment was a small roasting machine of 25 kilos. At the same time, resembling roasting factories would endeavour to thrive in a competitive market, in a decade portrayed by poverty and frugal coffee, composed by barley, black grains and chicory from Azores, a Portuguese archipelago.

In the next decade, with the improved living conditions of the population, the coffee earlier confined to the higher society became available to all social classes, consequently the factory started to produce the renowned *pure coffee*<sup>2</sup>, characteristically Portuguese. Furthermore, in the early decade of 1970, the coffee industry reached its peak, with clients

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<sup>1</sup> Typical Portuguese cake that is traditional of Christmas time.

<sup>2</sup> Without any type of mixture or residue.

forming queues at the roasting factories, whilst an intense and unique aroma hovered in the air. At the time, Augusto's master work had employed fifteen workers in the coffee shop and warehouse, aside from the salesmen, who travelled by boat to the south bank of the Tagus River, selling coffee door-to-door.

Thereafter, in the centre of Lisbon, Augusto inaugurated six coffee shops, selling tea, spices, dry fruits and preserves, in addition to the coffee supplied by the warehouse, as it would function as a purchase centre by subsidizing the chain of stores. Prospecting the expansion of the business and the placement of his five younger brothers, the founder employed his male siblings in the factory as interns, working on miscellaneous posts, for the purpose of learning the craft. Later on, Augusto enlarged the network of stores, with his brothers and other collaborators managing a total of ten coffee shops, financed by the firm.

Moreover, the founder married Ema Brandão in 1946 and the couple had two boys: Júlio and Luís, the current managing partners of the roasting company.

**Júlio Brandão** - Augusto's oldest son, born in 1952, recalled the manifold nights aiding his mother to fill and pack bags with coffee, an essential task that he gladly partook as a family member. His father had established the first network of coffee vending machines in the theatres of Lisbon, hence spectators could drink *pure coffee* in the interval of the session, served in the numerous machines purchased and distributed by Augusto. This characteristic coffee was mainly disclosed and diffused by *Autêntico Aroma*, as the firstborn of the owner proudly states.

Over the course of time, the family business kept growing as Júlio watched his father getting into debt, namely to buy land and equipment, with the purpose of increasing the quantity and variety of coffee marketed by the firm. The after-effects devastated Augusto, who confronted with the pressure of the high burden that the investment caused, ended up having a nervous breakdown. In consequence, the production was suspended and the company was confined to purchase coffee from other roasting factories, until Júlio took over the

responsibilities of his ailing father in 1970. The entrance of the 18-year old was marked by the assemblage of a new roasting machine considered to be the *crème de la crème*, expected to be performed by a German technician. However, the expert never made an appearance, ergo Júlio decided to open the dirty boxes and with the help of a team of whitesmiths, set up the new roasting machine, which still operated in the company in November of 2018. In the course of time, Augusto recovered from his illness and returned to the management of the factory, while Júlio started his Engineering Degree in Lisbon, leaving his job at the firm.

The firstborn graduated in 1977 and returned to the management of the family firm due to the prosperous growth of the business, result of a substantial increment in the number of orders. Thereafter, Júlio was, once again, employed as a manager, becoming the right-hand man of his father until 2006, the year of the death of the founder. Additionally, Júlio married Joana Brandão in 1986, having a son in 1992, Ricardo, and a daughter in 1994, Helena.

**Luís Brandão** - The second child of Augusto, born in 1958, took equally part in the family business at his younger age. However, with architecture running through his veins, Luís decided to pursue a degree in this area, never expressing interest in the roasting factory. Besides, at the time, his father and brother were already managing the family business, hence the younger son was not required in *Autêntico Aroma*, unlike Júlio who joined the firm because his father needed assistance.

Nonetheless, two years after Augusto's death, Luís entered the family business, being one of the managers since 2008. Moreover, the younger son married Vera Brandão, having two daughters, Carla, born in 1992 and Vitória, born in 1993.

**Ricardo Brandão** - The 26-year old enjoyed a resembling infancy to his father's and uncle's, insofar as assisting his father constituted a frequent task for him and his sister, Helena.

In 2013, Ricardo graduated in Sports Management, however by watching his father leaving home at the crack of dawn and only returning at the witching hour, the older sibling

made a resolute decision. In September of 2013, Júlio's son joined the family business while attending a master's Degree in Management, under the status of student-worker, obtaining the expertise to be a skilled manager, along with relieving his father from the heavy workload.

Up until November of 2018, Ricardo was the youngest worker at the roasting factory and proudly one of the three managers of the family business, aiming to continue the illustrious work of his grandfather by exerting to connect with new clients and pursuing unique varieties of coffee.

**Vitória Brandão** - Born in 1993, the childhood of Luís's younger daughter, as well as her sister's, was evidently distinct from their cousins, Ricardo and Helena. As her father opted to be an Architecture teacher and thus, never worked at the company until 2008, two years after Augusto's death, neither Vitória or Carla had responsibilities in the family business.

Characterized by some family members as rebel and undisciplined, the 25-year old experienced a turbulent youth and failed the senior year at high school, leading her parents to evict her from home after several conflicts, in the Spring of 2013. Nevertheless, not finishing her studies was only the tip of the iceberg, as Luís and Vera forgave the fractious teenager and, in an attempt to show her the right path, Vitória was "employed" in the family factory, in January of 2014. However, the young girl was never an official employee and thus, would show up at the factory whenever she desired, aiding the other employees to roast the coffee. Moreover, after only working for 4 months, Vitória returned to high school and finished her senior year, in 2015.

In June of 2018, Vitória graduated in Marketing at a University in Lisbon and recently started to work as a Marketing Assistant, mainly dealing with digital marketing channels and supporting the creation of contents for campaigns produced in those channels.

## The roasted coffee business

**Coffee** - The location of the roasting factory, unaltered since 1950, became very familiar to the neighbourhood, accustomed to the “marvellous aroma of coffee in the morning”<sup>3</sup>. Indeed, *Autêntico Aroma* had been preserving the secrets of the traditional roasting processes, abandoned by most producers, using a firewood oven that created a unique and natural coffee, without additives. With the passing of the years, Júlio and Ricardo introduced new varieties of coffee, importing from local producers in Colombia, Brazil, Vietnam, Indonesia, and several distinct countries around the Globe (see Appendix 2). Up until November of 2018, the family factory still produced the illustrious Portuguese *pure coffee*, arriving from the former Portuguese Overseas Provinces, namely from Angola and São Tomé.

Furthermore, the coffee was available for purchase in the website and in the warehouse, for individual or corporate clients, residing in Portugal or abroad. An individual client could select the origin(s) of the coffee, the size of the package (250 grams, 500 grams or 1 kilogram), the type of milling, or could simply opt for one of the four non-personalized packages. Concerning the corporate clients, that is, trendy cafés in the area, restaurants, hotels, foreign and Portuguese firms, the coffee business had different requirements. On the one hand, the roasting factory made an initial investment by providing basic equipment and utensils, including the coffee machine, crockery, cutlery, sugar and cinnamon to the corporate client. On the other hand, the customer purchased a significant quantity of coffee, considering that a typically café usually acquired between 10 to 20 kilograms per week.

**Overview** - *Autêntico Aroma* had gained momentum over the years, with an increasing number of clients, or merely curious sightseers, visiting the factory and buying what is considered the best energy boost ever<sup>4</sup>. The coffee was roasted twice a week and the employees worked 11 months *per annum*, inasmuch as the company always closed in August. However,

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<sup>3</sup> Opinion of an employee working in the neighbourhood of the roasting factory for several years.

<sup>4</sup> Opinion of a client of *Autêntico Aroma*.



with the business increasingly prospering, 2018 was the first year that the factory opened that month, to fulfil the needs of every customer. In consequence, Ricardo and Júlio had been facing considerable difficulties to follow the initial strategy: being in a niche market. Indeed, the grandson of the founder found himself in the embarrassing situation of having to refuse some clients, who contacted the company because of the benefits offered, instead of demonstrating interest for the uniqueness of the coffee.

Regardless of the current prospering situation, *Autêntico Aroma* encountered arduous challenges in the past. In fact, the ten coffee shops that Augusto handed to his brothers and other managers, closed throughout the years. According to Ricardo, pastry shops started to emerge, offering the opportunity to have a cake with a cup of coffee, in the company of others – a concept that had, and still has, a tremendous success worldwide. In the meanwhile, less customers intended to buy coffee beans and make their own coffee at home, particularly because that implied owning a coffee grinder – "The coffee shops began to lag behind and hence, the last one closed last year, really due to the lack of demand".

Up until recently, *Autêntico Aroma* employed 9 workers, including the two managing partners, Júlio and Luís, and the third manager, Ricardo (see Appendix 3). In the factory, father and son operated in each phase of the roasting, later in the stowing and finally, in the packing and sale. In addition, the grandson of the founder was responsible for managing the contents of the website and the Facebook Page, as well as contacting and satisfying the needs of the younger clients, mainly the modern cafés. Besides, the 26-year old was accountable for travelling outside the country, dealing with the business negotiations and personally examining potential coffee plantations. Moreover, Júlio was responsible for communicating with the long-term customers, that have been loyal to *Autêntico Aroma* for decades. Regarding the third manager, he worked from home, dealing with a small percentage of online sales for individual clients and examining possible investments on corporate clients, namely cafés. Ultimately, the salary of the three

managers was the same at the end of each working year and the dividends were equally distributed between the two partners.

## **Coffee, the Seed of the Discord**

### **The root of all evil**

Augusto Brandão died in 2006, leaving his company equally divided to the children, Júlio and Luís Brandão. At the time, the firstborn was already working at the family-owned factory as a manager, while his brother was an Architecture professor at a University outside Lisbon.

The relationship between the two brothers, before the death of their father, was described by Júlio Brandão as ordinary and common. Indeed, growing up and following different paths was a choice for each sibling, since they had the autonomy to pursue their own dreams and goals. Hence, before inheriting their shares of *Autêntico Aroma*, Luís and Júlio were pleased with their current job and the course their life took, under all the circumstances.

Although seven, the difference of ages between the two sons of Augusto Brandão, is seen as a lucky number, it did not prevent the siblings from sliding into a conflictual relationship. Following the distribution of shares, Júlio became a managing partner, whilst Luís became the other partner, without being involved in the management of the roasting factory. With the death of the founder, the affinity between the two brothers deteriorated, as Luís, mightily instigated by his wife, observed meticulously the growth of the company and the increment of profits.

### **The family dinner**

In November of 2007, Júlio, Luís and the respective families, reunited for a family dinner at Ema Brandão's house, the home where the two brothers grew and met a couple of times per year. At the dinner table, the family chatted about the daily life of the members, and

later on, the course of the conversation switched to the family factory topic. With a provocative tone, Luís and Vera requested, then demanded, Júlio to justify the low quantity of money received from the dividends, which Ricardo's father vindicated to be "doing the best to manage the company". In a rage, Vera got up and accused the managing partner of stealing money from the family firm, triggering a dreadful argument, that would damage the relationship between Luís's and Júlio's family branches forever. One week later, the younger son of Augusto Brandão concluded that the best option was to quit his current job at the University, and decided, in concordance with his brother, to be the second manager of *Autêntico Aroma*.

Hence, in January of 2008, Luís began his new job, holding similar responsibilities to Júlio, mainly being part of the roasting process and of the customer service. After two years of a hostile working environment due to the family dynamics between the two brothers, Augusto's youngest son discovered that he suffered from a painful blood disease, detaining him from the work at the factory. Under these circumstances and aiming to maintain control of the business, Luís demanded to carry on with his duties at the comfort of his home, in a city near Lisbon. As differences kept arising from both parties and without a possible agreement on sight, the wife of the founder intervened and pleaded her firstborn, in the name of the family, to accept the conditions imposed by his brother. Thereafter, in May of 2010, Júlio continued managing *Autêntico Aroma*, whilst Luís became a manager from home, with undefined functions at the time.

### **Two brothers, different perspectives**

At home, Luís attempted to keep in touch with clients, nonetheless with plenty of time and facing major difficulties to pursue with this contact, in June of the same year, he decided, without warning Júlio, to create a website for the company, available in Portuguese. Aided by his younger daughter, Vitória, a simple platform was constructed with *Google Sites*, displaying the location and contacts of the firm, in addition to the types of coffee available for sale at the

factory. At home, Luís was engaged in seeking potential cafés to invest and in improving the website. As clients visited this platform and contacted Augusto's younger son, he started to forward their emails to the older manager, since Luís's illness detained him from standing for too long or driving to the factory.

When Júlio received the first of these emails, he immediately phoned his brother, trying to clarify the source of the sudden contact from new customers, to which the younger sibling informed him of the existence of the website. Keeping in mind the words of his mother to maintain the peace in the family, Júlio asked for the access to the website, to meliorate its “primary design and incomplete information”. Nonetheless, this request resulted in a refusal that the father of Ricardo had no other option rather to accept it.

Moreover, in the summer of the following year, Luís and his youngest daughter created a Facebook page for the company, notifying Júlio afterwards. In the platform, the contents generated did not reflect the daily occurrences of *Autêntico Aroma*, since the siblings constantly failed to update each other, implying that each brother would first act and then inform.

Furthermore, in March of 2012, Luís was contacted by an owner of a café, interested in the aromatic and gustatory properties of the coffee roasted by the Brandão family. Excited with the big opportunity, the manager decided to make a significant investment and purchased furniture and parasols, in addition to the usual equipment, utensils and condiments. A few days later, Júlio noticed a substantial withdrawal of money from the firm's account, only accessible by the two brothers, and immediately phoned Luís, who informed his sibling about the investment settlement. In consequence, a stormy argument occurred, as Júlio begged Luís to renounce his decision, namely due to the exacerbated value, twice than an ordinary investment. Additionally, the older son of Augusto argued that the aim of *Autêntico Aroma* was to represent a niche and under these circumstances, the firm would be competing with bigger companies, for instance Nestlé and Delta. Besides, the family-owned business relied on *gentlemen's*

*agreements*<sup>5</sup> between the firm and client, since 1950, aggravating the risk of the situation due to the non-binding nature of these accords.

Unfortunately, Luís's misjudging of the deal resulted in a vast loss for the company, insofar as the owner of the café fled to South America, leaving a debt of tens of thousands of euros, including the bulky investment of the roasting firm. Ergo, Luís eventually bought the space for himself and hired employees to manage his café, in an attempt to avail the existing equipment and to reduce the loss for the company, by purchasing its coffee monthly.

Nonetheless, the miscommunication between the two brothers occurred from both sides, with the younger sibling complaining about Júlio trying to manage the firm by himself, of excluding Luís from the decision-making process and of taking away his inherited rights. On the other hand, the firstborn accused the brother of being complicated and impulsive, adding that although both earn the same salary, Luís was basically just a shareholder, as Júlio justified that it is impossible to manage the business from home. Besides, the brothers presented different perspectives regarding the vision and objectives for the family business, insofar as Júlio aimed to maintain the firm in a niche and emphasised on the proximity to clients, while Luís wished to become a large and well-known brand, selling vast quantities of coffee to supermarkets and obtaining higher returns. For instance, Júlio refused any exceedingly large order, as opposed to his brother who wanted to accept these, arguing about the clear opportunity to expand the business.

In the past, Júlio tried several times to buy his brother's shares, attempting to satisfy both siblings and to maintain the Brandão's legacy, however Luís always refused these propositions and the siblings were never able to reach an agreement.

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<sup>5</sup> Informal and legally non-binding agreement that relies on the honour of both parties.

## **Following the steps of their fathers**

It was September of 2013 when Ricardo joined the family-owned business as a manager. His father forthwith directed him to perform miscellaneous tasks, training the 26-year old for months, in preparation for the tough job of managing a family business.

The entrance of the third manager was not acceptable for some family members, in fact, it was only due to the stubbornness of Júlio that Ricardo entered the business, since Luís was worried about the possibility of being in minority in the management of the company. Hence, in January of 2014, Vitória returned home after being evicted by her parents and later, Luís "employed" the teenager, against the will of Júlio. As Ricardo and his father feared, the job of the new worker endured for a short period of 4 months, following a complaint from customers inside the factory. Offended by the odour of the illicit substance that Vitória was smoking at the front door of the company, the clients reported the unpleasant situation to the present managers, father and son, who promptly dismissed the juvenile and notified her father.

Predictably, the relationship between Luís and Júlio worsened, to the extent that the brothers cut off the ties and at the end of 2014, the external accountant of *Autêntico Aroma* was constrained to meet with each at a time. Moreover, Ema Brandão intervened several times throughout the year, until finally the siblings left the pride aside and started to communicate as formerly: occasionally at their mother's house with the entire family, and at the end of each working year to reunite with the external accountant.

Furthermore, in April of 2015, Ricardo created a new Facebook page for the family-owned business, posting pictures of the coffee freshly roasted, of the plantations abroad, between other updated contents. In the same month, after manifold meetings with a marketing firm, the grandson of the founder published a new website for the firm, in his own words "dynamic and catchy", available in English and Portuguese. In May of the same year, Vitória created an Instagram page for the company, posting inspirational quotes and pictures of coffee,

originated from the internet. As customary in the Brandão family, each branch informed the other about the platforms after its creation.

In November of 2018, the two Facebook pages and the two websites still coexisted and soon, the same situation would occur with the Instagram platform, insofar as Ricardo was reuniting with the marketing company to design this page. At the time, the website created by the younger manager ranked first place when searching for *Autêntico Aroma* on Google, due to the investment in Google Ads and in *organic* search<sup>6</sup>, whereas the page created by Luís emerged in 5th place, without updates since June of 2015.

### **Passing the baton**

The two owners have been discussing on the phone a succession plan that both would consider fair for the four children – Ricardo, Helena, Carla and Vitória. Hence, when the time comes, Luís and Júlio will be equally distributing their shares, that is, 25% of ownership for each descendant. Regarding the management responsibilities, neither Carla nor Helena demonstrated any interest in administering the factory, however Vitória displayed her enthusiasm for returning to work for the family firm.

### **Skating on thin ice**

So far, the conflicts between the two sides of the family had not compromised the Brandão's legacy, mainly due to the determination of Ema, who held the family together despite all the complications. In fact, the grandmother of Ricardo was the only reason why the two siblings did not appeal to court, after all their discordances that were caused by acting first and informing later.

Nonetheless, with the succession planning, Ricardo realized that, possibly, the worst was yet to come, as the four cousins would have equal shares of *Autêntico Aroma*. The grandson

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<sup>6</sup> By continuously improving the quality and speed of the page, adding to the selection of the right keywords and the increment the quality and number of inbound links.

of the founder was apprehensive about their future relationship, alarmed that it could follow the temperamental relation of his father and uncle, which would inevitably result in the termination of the family-owned business.

Additionally, Júlio would retire very soon, leaving all the responsibilities to his son, who would become the only manager, in person, at the factory. The firstborn of Augusto already filled all the paperwork that the accountant provided, thereafter he would be retiring soon. However, to facilitate the process, Ricardo's father would keep meeting with some long-term clients, together with his son, on behalf of the family-owned business, until Ricardo would feel completely ready to manage, and soon to own, the business.

Thereafter, the younger manager felt responsible to lead the company, doing everything in his power to simultaneously satisfy the needs of the family members involved and to keep the Brandão's legacy alive, while maintaining the uniqueness of the coffee. Hence, Ricardo knew that the firm definitely needed new governance and management structures to deal with the passing of the baton, but could he convince the future owners to reach a solution that would safeguard the interests of their grandfather?

He wondered whether he could buy the shares of his sister and cousins, so he could carry on with his work and detain all the power in the decision-making process, as he considered himself to be the most skilled and competent to run the company, where he had been working for several years. However, Júlio's firstborn knew that Vitória would never sell her ownership of the firm, additionally Carla would always support her sister and would rather sell her shares to the younger daughter of Luís. Thereafter, would the four owners ever be able to reach a consensus for sake of the company?

Furthermore, Ricardo wondered to what extent it was possible that he and his younger cousin could work together at the family-owned business, but he was aware that the situation was unavoidable. Would it be possible for both to be managers, but Ricardo would be the leader,

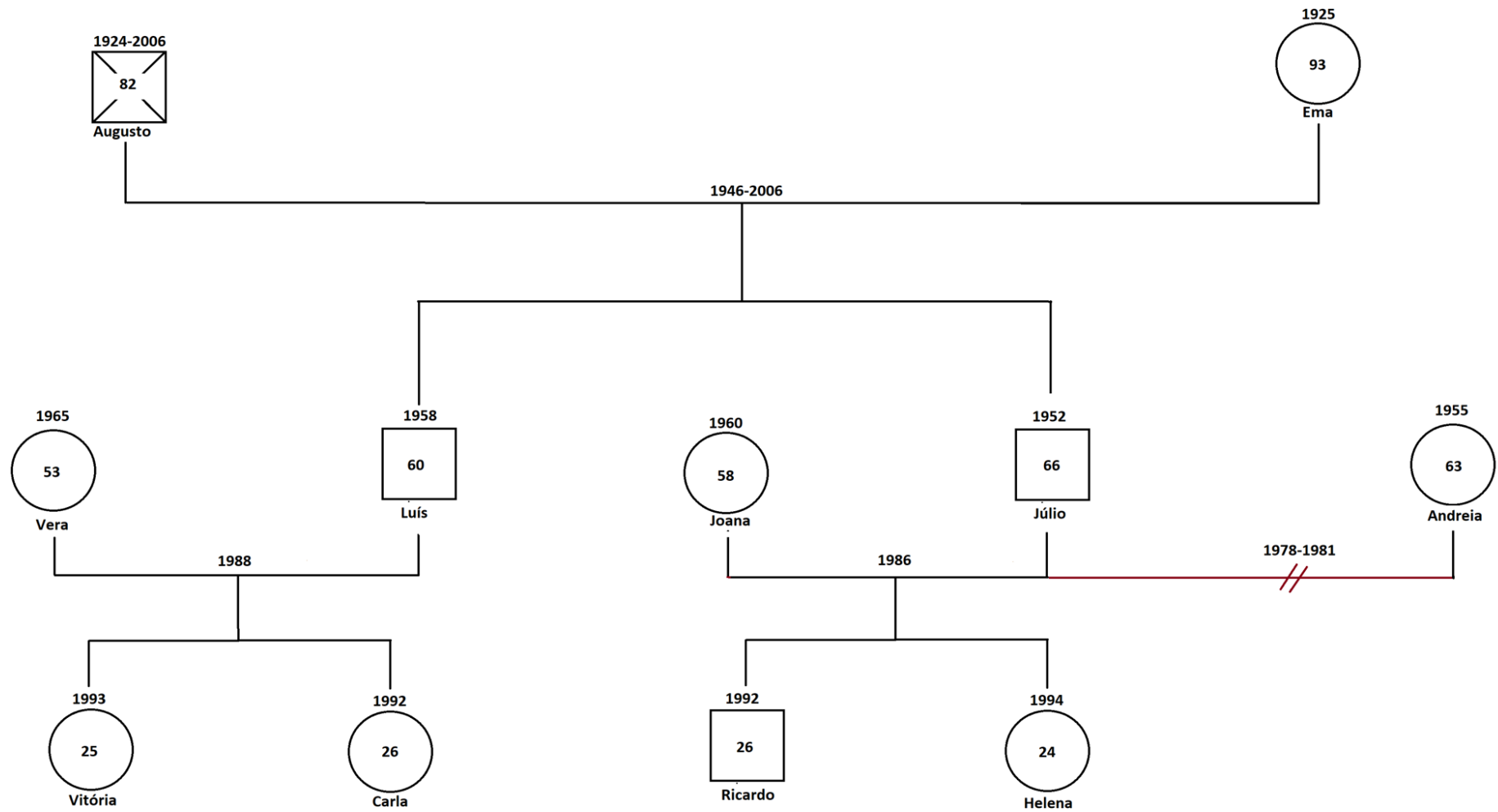


namely the CEO? Would Vitória feel diminished with Ricardo having a superior function at the company?

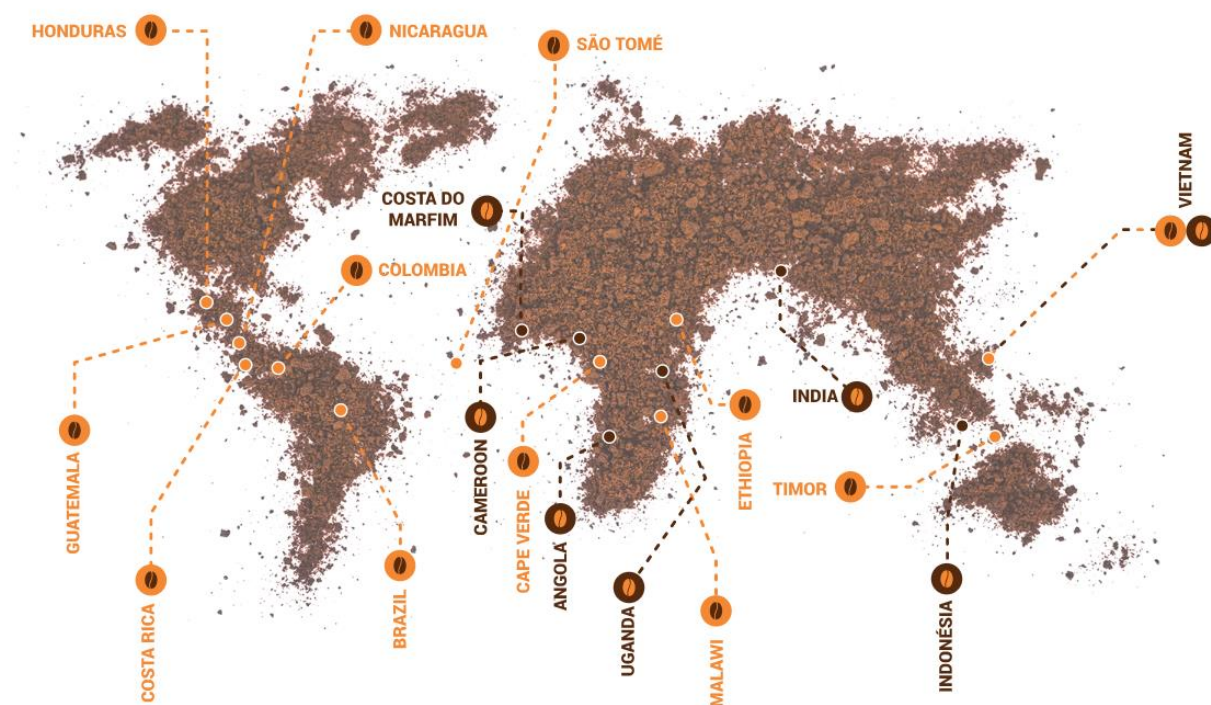
Staring at the bottom of the cup of coffee, Ricardo recalled what his grandfather achieved with empty pockets but with a heart full of hopes and dreams. The 26-year old murmured: “People have a saying about Family Businesses: *Shirtsleeves to shirtsleeves in three generations*. But I am going to prove them wrong.”

## APPENDIX

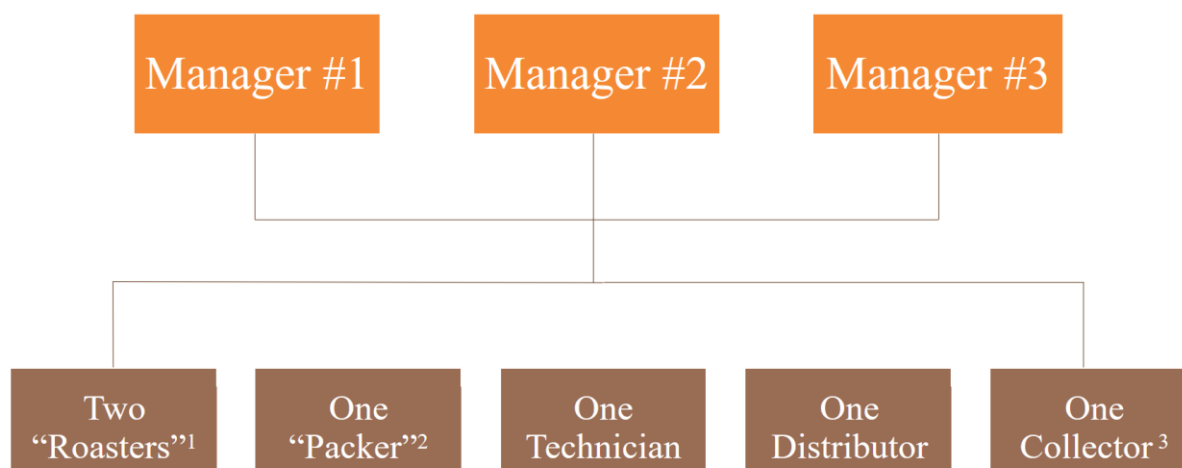
### Appendix 1- Family Brandão Genogram (up to date: November of 2018)



**Appendix 2 – Origins of the coffee of *Autêntico Aroma*, based on the two general classifications of coffee (*Robusta* – in brown – or *Arábica* – in orange)**



**Appendix 3: Informal Organizational Chart of *Autêntico Aroma***



<sup>1</sup> The chief and his ancillary are responsible for roasting the coffee.

<sup>2</sup> Responsible for packing the coffee.

<sup>3</sup> Responsible for collecting the money from clients, mostly elderly clients.

## **TEACHING NOTE**

### **Overview**

This case portrays the manifold events and the roles of the family members on the strain unsettling the brothers of the 2nd generation, as well as the analysis of the succession to the 3rd generation. Additionally, the proposed discussion aims at recommending new management and ownership structures, according to the questions raised by the protagonist.

### **Target audience**

This case was conceived for courses within the Family Business field, for undergraduate and master programs, implying the previous familiarization, of both instructor and students, of the following concepts: genograms, basic notions of the Three Circle Model, succession planning and the stages of ownership development – namely the evolutionary transition from a "Sibling Partnership" to a "Cousin Consortium". In this discussion, students have the opportunity to learn about important mechanisms within the Family Business scope, supported by a real case that presents typical family distresses, allowing the knowledge of the following concepts: “blurred boundaries”, overemphasis over one subsystem (“family-first businesses”), CEO exit-styles, nepotism, stewardship, bodies of the System Theory (family meetings, shareholders annual meeting and advisory board) and mechanisms to avoid deadlocks.

### **Learning objectives**

1. Analyse the critical family relationships in family businesses, and discern its causes, present consequences and possible implications on the future generations and on the continuity of the business.
2. Reflect on the different methods to maintain the conditions for leadership and on solutions to motivate the workers, eradicating the age factor.
3. Understand the different techniques for the resolution of conflicts in family businesses and the impact of proper bodies on avoiding future disagreements.

## **Suggested Discussion Questions**

### **1. The Past: Second Generation**

#### **1.1. What are the critical factors that originally triggered the conflictual relationship between Luís and Júlio Brandão?**

By analysing the "The root of all evil", students should be able to recognize that this hostility was originally derived from the equal distribution of shares, a situation of 50/50, combined with the distinct roles of the two brothers in the family-owned business, with Luís as a partner and Júlio as the managing partner. Indeed, in the "The family dinner" subsection, students may identify that Luís perceived a certain unfairness and distrust with his brother managing the business by himself. In addition, the younger sibling had a different perspective regarding the proper level of dividends, which is a frequent situation that occurs between family owners not working in the business and their relative who are owners and are employed in the family firm (Davis 2001). Following this, when Luís became a manager from home, it is clear the non-specification of tasks and the lack of trust between the siblings, derived from the equal share distribution. Furthermore, students may discriminate and list the manifold issues from the subsection "Two brothers, different perspectives" – creation of the website and of the Facebook page, Luís's misjudging of the investment in the café, different views on the market positioning of the firm – to fully understand how the initial triggers lead to these disagreements.

Additionally, the instructor may seize the opportunity to explore the concept of "blurred boundaries" of the Three Circle Model, which can be perceived by analysing the relationship between Luís and Júlio. In fact, family rules overtook the business (Poza 2007, 11) since Luís started to manage the firm from his own home, which would never be allowed for a non-family employee. Besides, both siblings made decisions without questioning each other first, a situation that would lead to harsh consequences for the abusers, if these were not family members.

**1.2. How did the other family members exacerbate the discord between the brothers? Recalling the entrance of Ricardo and Vitória in the business and considering the Three Circle Model, what subsystem has more emphasis in the Brandão family?**

Students should be able to identify the three family members that negatively interfered in this relationship as Vera, Vitória and Ricardo Brandão. In the “The family dinner” subsection, it is perceived that Vera had been secretly conspiring against her brother in law, which resulted in the entrance of Luís, as a manager, in the family-owned business and in the first serious conflict between the siblings. Regarding the third generation, both Vitória and Ricardo created social media with the support of their fathers, respectively, throwing more oil to the fire. Besides, the exit of Vitória from the family-owned business was the tipping point for the siblings, who cut the ties for over a year.

The instructor may take advantage of the facts in the case to discuss the concept of overemphasis on one subsystem of the Three Circle Model, namely “family-first businesses” (Poza 2007, 9). In this type of business, *nepotism* is evident, since Vitória and Ricardo, as well as Júlio and Luís, acquired their job at the company due to their surname, without questing for non-family talents. In fact, the incoming of Vitória and Ricardo generated unpleasant and intense confrontations, insofar as both Júlio and Luís were determined to have the son and daughter, respectively, working at the family firm. Additionally, another characteristic of the overemphasis on the Family subsystem is the equal pay for members of the same generation (Poza 2007, 10), which in this case occurs for Júlio and Luís, despite the disparate workload.

**1.3. After the vivid conflicts that lead to a non-existent communication in the past between the brothers, how was Ema able to maintain a certain unity in the family? Do you think this is a stable equilibrium for the present owners and for the future ones?**

Students should be able to identify the several moments when Ema intervened in the relationship between her sons, preventing it from going down the drain. First, it is noticeable

that Ema's house is the only home where the entire family meets, including Luís and Júlio, demonstrating her effort to safeguard the unity and maintain a certain harmony in the Brandão family. Furthermore, in the subsection "The family dinner", Ema stepped in by asking Júlio to think about his family, which was the only reason for the agreement reached between the brothers regarding the management of the family owned business. Moreover, in the subsection "Following the steps of their fathers", Ema intervened several times, once again mediating the relation between her sons. However, this last reconciliation between Júlio and Luís took almost a year, revealing the exacerbation of the relationship and the inevitability of its breakdown.

Moreover, this is definitely not a stable equilibrium! As a matter of fact, this equilibrium displays a clear fragility. which resides on three main reasons, starting by the fact that Ema is the only person in the family that strives for the reconciliation of Luís and Júlio, with no one else positively intervening. Secondly, it is becoming harder for the grandmother to hold the relationship of her sons together, with the complexity of the family and business visibly increasing. Lastly, Ema is 93 years old, as perceived by inspecting the Appendix 1, meaning that sooner or later she might lose her ability to counteract the instability of her family, which would disrupt the Brandão's union forever, since no one else seems to be fighting for it.

In order to assure the understanding of the question, the instructor may conduct in class the construction of the Brandão family's genogram, by engaging the students to proactively discuss the key events and its effects on the family relationships, giving suggestions until the genogram matches the one proposed in Appendix 4.

## **2. The Present: Third Generation working at the family-owned business**

**2.1. At 66 years of age, Júlio is about to retire from the only job he had in his entire life, ergo the 26-year old son will become the only active manager at the family firm. Bearing in mind that Ricardo is the youngest worker at the factory, how can he motivate**

**the eldest workers that have been working at the firm for decades, in order to improve the conditions for his leadership?**

Students may identify in the section “Skating on thin ice” that Júlio will remain at the roasting factory to aid his son managing the business. However, Ricardo’s age may compromise the respect and consideration of the eldest employees, since they still might see him as the little boy who came to the factory after school, instead of perceiving him by his craftsmanship and devotion. In fact, “young managers who are tasked with guiding people older than themselves often deal with direct reports who question their competence or ability to lead, at the same time as they are coping with their own self-doubt” (Goudreau 2013).

To be respected and followed as leader, Ricardo needs to simultaneously follow the steps of his father while creating his own route. In this sense, it is fundamental that the young manager emphasises on the personal relations with the workers, showing interest in their lives and family. On the one hand, Ricardo will demonstrate care and esteem for the employees, and on the other hand, he will perceive what motivates and what is the most precious to them, which will capacitate him to be a more virtuous leader (Forbes 2013). Moreover, Ricardo must be supportive and show availability to listen to the employees’ ideas, understanding their needs and expectations, since they have been working at the company for decades and definitely have a different discernment, presenting most of the times a perspective that the millennial never imagined (Forbes 2013). Finally, a frequent and transparent communication is imperative, preferentially face-to-face, insofar as the eldest employees were not raised with the same technologies, if any, and they give more value to a direct conversation than to any phone call or text message (Fisher 2013).



## **2.2. How can you relate the future expected exit-style of Júlio Brandão with the preparation of his son as a leader?**

Before answering the question, the instructor may introduce and explain the four CEO exit styles, based on the recommended reading of Sonnenfield (1989), according to the Teaching Plan.

After analysing the “Skating on thin ice”, students should be able to perceive that the future exit-style of Júlio will most likely be the Ambassador (Sonnenfield 1989). Indeed, the firstborn of Augusto will keep attending few informal meetings with long-term clients, on behalf of the family-owned business, but will pass on most of his management responsibilities to Ricardo once he retires and further ownership responsibilities to the future owners. In addition, Júlio taught his son to manage the business throughout the last five years, allowing him to personally contact the clients and to directly obtain the knowledge about the family business, to later convey the responsibilities, which constitutes another characteristic of the Ambassador exit-style (Poza 2007, 114). In this sense, Ricardo has a substantial and evident advantage in comparison to the other owners, having experienced first-hand the workload of the roasting factory and enjoying a strong personal connection with his father, along with the learning from observing Júlio’s ownership duties.

## **3. The Future: Third Generation owning the business**

### **3.1. Moving from a “Sibling Partnership” to a “Cousin Consortium”, how will these members of the 3rd Generation become prepared for the responsibility of being owners of their family’s firm?**

To answer this question, the instructor should start by discussing the different stages of ownership development of a family business, namely the characteristics of the presented evolutionary transition – Sibling Partnership to Cousin Consortium – of the Brandão family

(Gersick et al. 1999). After understanding the complexity of this evolutionary transition, students are prepared to answer the question.

The preparation of the next generation is directly connected with the training of *stewardship*, that is, teaching the future owners that the meaning of ownership is to cherish and watch over the business, and not about ruling or commanding (Glynn 2012). For this, Luís and Júlio need to reunite with the four descendants, ideally together as a family, putting their issues aside and finally setting the right example, with the purpose of avoiding future conflicts and inspiring their children to be united as a family and as a team of owners. To assure that this meeting takes place, Ema should remind her descendants of the legacy they are supposed to carry on, since she is the only one with this authority and power, as seen in previous conflicts between her children – which was discussed in the answer to the first part of question 1.3.

Additionally, the future owners must acquire financial responsibility, by understanding, at least, basic financial reports and analysing the evolution of business (Glynn 2012). Besides being able to examine the financial situation of the firm, the owners must learn about the coffee industry and business traditions, as well as learning about adapting to the price changes of the coffee, which is quoted on a stock exchange. On top of that, the four cousins must know and respect the traditions and habits of the firm, recognizing how these reflect its success and acknowledgment from the clients.

**3.2. At the end of the case, Ricardo questioned himself what new management and governance structures he could suggest to his cousins and sister. What resolution would you propose to Ricardo and the new owners? What bodies do you propose for each subsystem, under the previous circumstances? Construct the new design of the Three Circle Model with the new placement of all family members, according to the suggestions presented.**

Students must start by explaining that to have a successful family business, harmony and unity in the family is the foundation. Indeed, Davis (2014) states that "In order to endure for generations in a sustainable manner, families need to grow their financial assets while maintaining unity and building talent". Hence, the reconciliation of the Brandão family should be one of the focal points, which leads to the suggestion that family meetings should frequently take place, with no formality, reinforcing the communication between the members. As described in "Following the steps of their fathers" subsection, the entire family only gets together occasionally, at Ema's house, therefore this would be the recommended location for the family meetings, which would also be supported by the balancing influence of Ema Brandão. The aim of this body would be to address the concerns of the nine members, to build shared prospects and to understand the rights and duties of the owners and managers, respectively, fostering the unity and harmony in the family (Poza 2007, 46). Indeed, according to Habbershon and Astrachan (1997), family health is directly related with the success of the administration of the family business and in addition, it is a determinant factor for the long-run prosperity of the company.

Regarding the management structures, a possible resolution for the two future managing partners, that is, Vitória and Ricardo Brandão, would entail an alignment between the experience and background of each cousin with the rights and duties of the job. Accordingly, Ricardo holds a master's Degree in Management and has been a manager of the family-owned business since 2013, experiencing every post in the roasting factory, thus, Júlio's son would fit the CEO role like a glove. Under the same circumstances, Vitória is licensed in Marketing and had helped her father in the formation of the website and the Facebook platforms, as described in the "Two brothers, different perspectives" subsection, besides creating the Instagram page. In addition, the youngest daughter of Luís has been working as a Marketing Assistant – check the subsection "Raising a family while building a business", under the description of this

character – having knowledge and expertise in this area. Ergo, Vitória could be responsible for the management of the social platforms and for the online communication with the interested clients contacting the firm through the same platforms, becoming the Marketing Manager of the family-owned business.

In this sense, it is crucial that Vitória accepts Ricardo as her superior and as the CEO of *Autêntico Aroma*, which is in fact, one of the main concerns of the protagonist of this case, explicit in the "Skating on thin ice" section. Thereafter, Vitória and Ricardo must comprehend the clear separation between being owners and being managers, as in the first case the cousins inherited equal shares of the firm and their goals comprise retaining capital and creating a vision for the business. However, in the second case the aim is having an efficient harnessing of the human resources and to combine their complementary skills, reasons why Vitória and Ricardo need to focus on their abilities and how these fit in the company, rather than on their individual goals. For a total understanding of the differences in these roles, the four cousins should have a meeting with an expert in "Family Business", where questions could be openly asked in order to avoid any misunderstandings or doubts. Since Ricardo completed a master's Degree in Management, the contact could be done with a Professor of his former University.

Moreover, another stimulus for the future managers would be to design a fair compensation system, crucial to simultaneously boost the workers and to differentiate them (Hurley 2014). A recommendation would be to design a pay-for-performance package, which would provide the same stimulus for both Vitória and Ricardo to give the maximum on each job and would avoid possible disagreements regarding the pay level.

Furthermore, a non-family manager should be hired to provide different perspectives and capabilities, supporting Ricardo in the compliance of the strategy and goals of *Autêntico Aroma*. In this case, the firm lacks a sustainable decision-making process of the business transactions, as observed in situations where it lost substantial quantities of money due to the

misinterpretations of the working family members – the debt of tens of thousands of euros from the café's owner that fled to South America and, many years before, the debt that led Augusto to have a nervous breakdown. Indeed, having an expert with knowledge in negotiations and transactions would, possibly, prevent bad investments and would entail a better utilization of capital. This way, the outsider manager would be the CFO, supporting Ricardo in the informal negotiation processes with the clients, and in order to relieve the heavy workload of Júlio's son, the expert could gradually start to take care of some deals. If properly chosen, the outsider could help improving the relationships inside the family by gaining trust from both Ricardo and Vitória, leading to a more clear and effective communication and easing potential conflict.

Concerning the ownership structure, a recommendation would be to maintain the share distribution that was discussed between the second-generation siblings: 25% for each member of the third generation. This way, to obtain the majority of votes, it would be required that at least three owners vote in the same decision, while in a situation of two shareholders owning 50% each, both would have to agree, which presents a higher probability of resulting in a deadlock<sup>7</sup>, as observed in the relationship between Luís and Júlio. Still, the probability of the two siblings of each branch voting in the same decision is extremely high, which would likewise result in a deadlock. Hence, it is essential to not give up when a 50/50 voting situation occurs, as the first mechanism should be to try again to craft a solution by debating the matters. If a decision is not made after three rounds of discussions, then the next option is to use a mediator to work with the involved parties to reach an agreement (Cunha 2018). This person should be a neutral outsider, pre-selected by the four cousins, whose aim is to support the communication between the shareholders and later, to achieve a decision accepted by all parties (Kliskam, n.d). Furthermore, if both mechanisms fail, a deadlock provision, part of the shareholders agreement, should be the next footstep. According to Cunha (2018), this option is "often considered an

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<sup>7</sup> A situation in which an agreement cannot be reached.

extreme measure for the business", however it may result, finally, in an agreement, allowing the shareholders to move on to further outstanding issues or to other important business topics. In this sense, the deadlock provision comprises the functioning of a pre-selected tie-break mechanism, for example giving the right to a pre-chosen cousin to make the resolute decision, flip a coin, draw straws or use arbitration as a last resource. Since it would be extremely difficult to reach an agreement on the choice of the cousin that would make the final decision, flipping a coin would be the most suitable mechanism for this case. By providing a prompt answer and by avoiding miss-interpretations – either it is heads or tails –, this option would be the most appropriate for the 50/50 situations that may occur between the owners.

Once again, the deadlock provision should only be followed if the three rounds of discussions and the mediation are not successful, in addition, this provision should be clearly described in the shareholders agreement, with clauses regarding the functioning of the chosen tie-break mechanism.

Regarding the governance body, a shareholders meeting should occur annually allowing the diffusion of the financial information and other relevant communications, and the discussion of the duties and responsibilities of the owners, which ensures an effective governance of the family business (Poza 2007, 50). Additionally, with the growth of the family-owned business, the constitution of an advisory board will be crucial for the survival of the company. In fact, according to a study performed by Caspar et al. (2010), “less than 30 percent of family businesses survive into the third generation of family ownership”, urging the importance of bodies that support the ownership subsystem. Thereby, a group of three to five outsiders – in this case three would be the best choice, due to the relatively small size of this business – comprising skilled professionals with diverse experiences in the same industry would be the indicated constitution of the advisory board (Garlewicz 2017), which would serve as a casual counsel and mentorship for the CEO.

Overall, the combination of these three bodies – family meetings, shareholder meetings and the advisory board – if correctly constituted, are an effective solution to the question raised by Ricardo, safeguarding the health of the Brandão family business.

Furthermore, accordingly to the "Teaching Plan", one student should volunteer, or the instructor may select one from the class, for the drawing of the future Three Circle Model, until the result matches Appendix 5.

### **Teaching Plan**

This case was structured to be discussed in three teaching classes, the first and the second occupying a full class of one hour and thirty minutes and a third class of forty-five minutes, allowing the instructor to utilize the other half of the class to clarify some doubts and to consolidate the contents learnt from the case. The first class should start by a brief introduction of the case by the instructor and then the discussion of each question, followed by the exploration of each proposed concept or exercise for each question. The second class should adopt the same structure of the first one and in the last five minutes of the class the instructor should assign the homework described below. The forty-five minutes of the third class should focus on a resolution for the questions of the protagonist, following the typical discussion and exploration of the proposed concepts. Overall, the discussion of the case will be stimulated by the spontaneous participation of students. The table below displays detailed planning of the teaching of this case.

<b>Class</b>	<b>Subjects for Discussion</b>	<b>Duration (min)</b>
#1	Instructor introduces the case	5
	Discussion of question 1.1 + Exploration of the concept of “Blurred Lines”	10 + 10
	Discussion of question 1.2 + Exploration of the concept “family-first businesses”	15 + 10
	Discussion of question 1.3 + Ask two volunteers to draw a genogram, with the help of the rest of the class, until the result is similar to Appendix 4	20 + 20

#2	Discussion of question 2.1	15
	Exploration of the four CEO exit-styles + Discussion of question 2.2	15 + 10
	Exploration of the evolutionary transition mentioned + Discussion of question 3.1 (exploration of the concept "stewardship")	10 + 15
	Discussion of question 3.2 – Exploration of suitable bodies for the sub-systems of the Three Circle Model: family meetings, annual shareholders meeting, and advisory board.	20
	Instructor assigns homework to reflect on the new management and governance structures	5
#3	Continuation of the discussion of question 3.2 – Exploration of possible management and governance structures and its implications + One student volunteers to elaborate the new Three Circle Model, with the assistance of the class, until it matches Appendix 5	35 + 10

### **Recommended Materials**

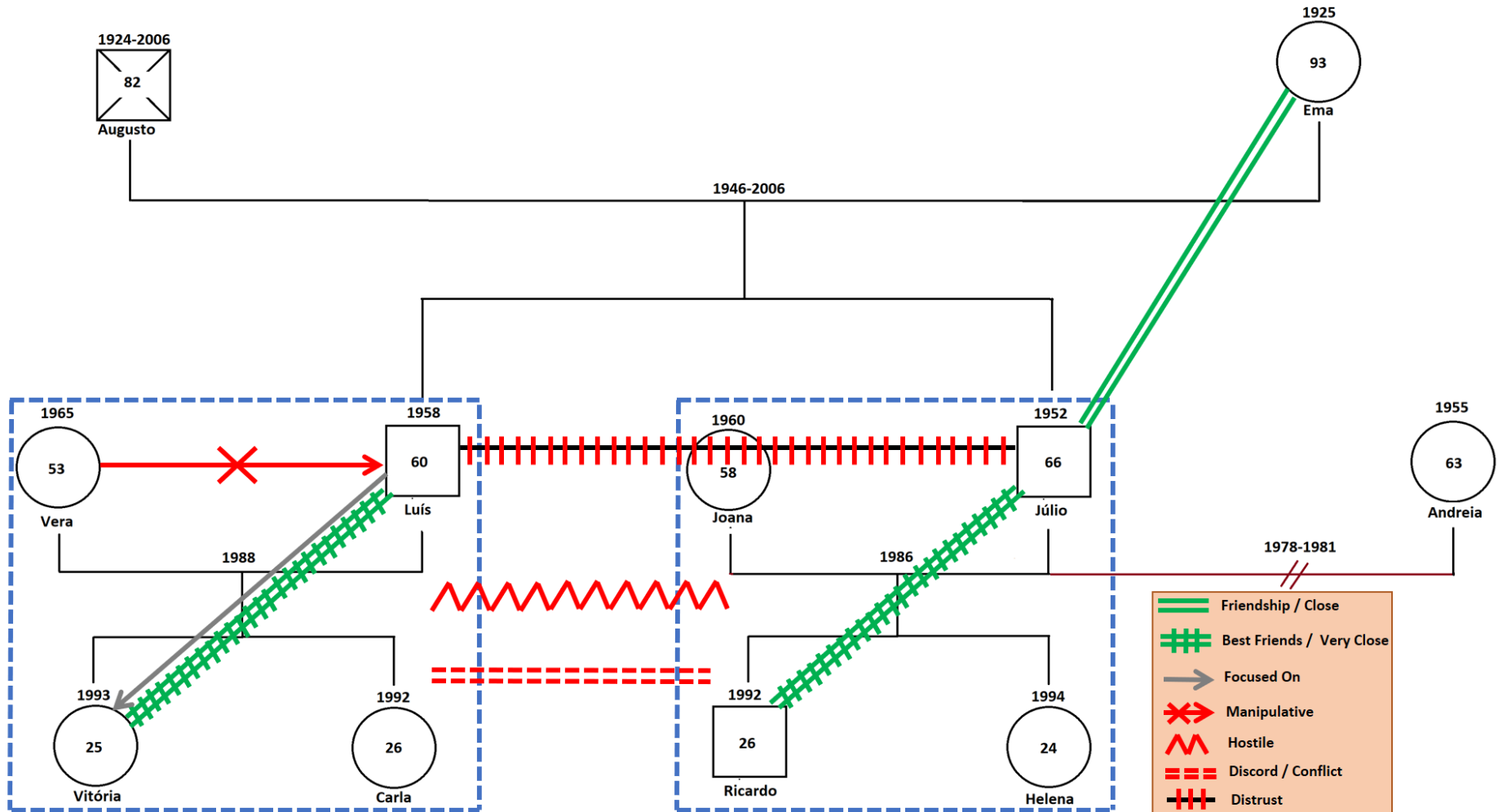
The instructor and/or students can study the following materials in order to deepen the contents taught in this case:

- Poza 2007: Comprehensive book, covering and supporting all topics except deadlocks.
- Question 1: Poza 2007 - Three Circle Model: “blurred boundaries” and overemphasis over one sub-system.
- Question 2: Forbes 2013 & Fisher 2013 - managing older employees + Sonnenfield 1989 - exit styles of patriarchs.
- Question 3: Gersick et al. 1999 - the stages of ownership development + Glynn 2012 - preparation for ownership + Hurley 2014 - compensation packages + Cunha 2018 - avoiding deadlocks + Garlewicz 2017 - advisory boards.

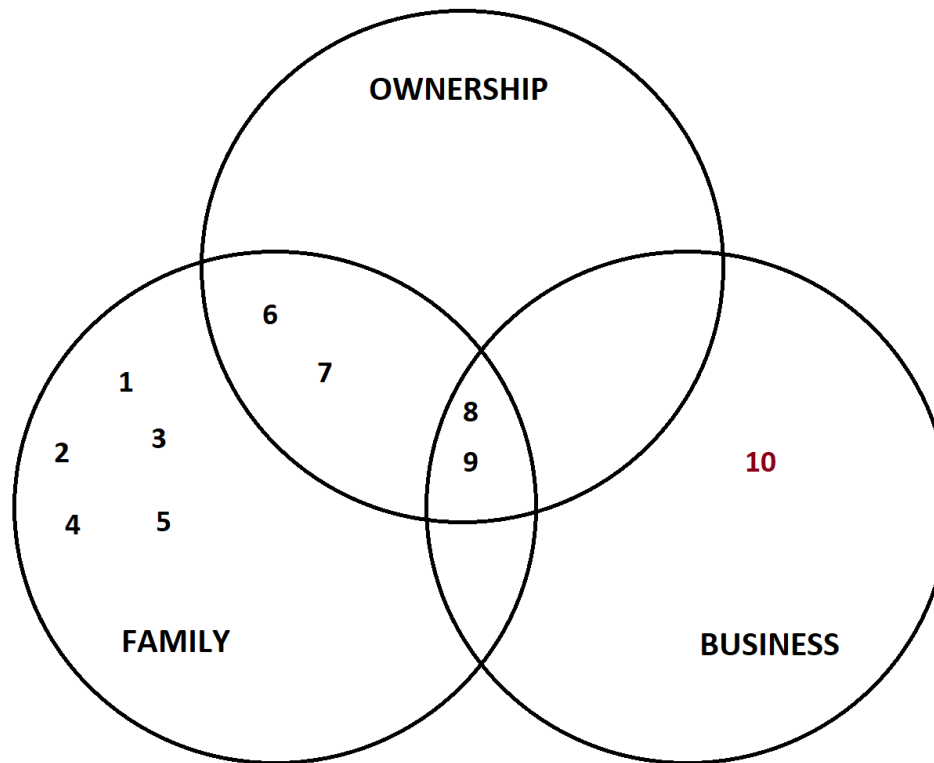


## APPENDIX TO THE TEACHING NOTE

### Appendix 4: Genogram with emotional relationships



**Appendix 5: The future Three Circle Model, according to the new ownership and management structures proposed.**



- 1 - Ema
- 2 - Vera
- 3 - Joana
- 4 - Luís
- 5 - Júlio
- 6 - Helena
- 7 - Carla
- 8 - Ricardo
- 9- Vitória
- 10 - Non-family manager (a possibility)

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